

Confidential Auctions: The Right Choice for Selling Your Business

As a business owner it is likely you have received unsolicited acquisition interest in your company. If you decide to entertain one of these opportunities, how do you know if an offer is fair or if other buyers might offer a higher price or better terms? The best way to resolve this dilemma is to run a confidential auction to create competition among several potential buyers.

The Auction Process

An effective auction process is confidential and entails substantial preparation with your advisor in advance of actively approaching a variety of potential buyers. Advanced preparation is key and involves initial due diligence, valuation, and drafting the confidential information memorandum (CIM) which tells the story of the business, identifies its value drivers, and elicits competing bids. Although this preparation takes significantly more time than preparing for negotiations with a single buyer, the overall process tends to generate better results as it enables simultaneous conversations with numerous interested parties.

Benefits of a Confidential Auction

The two approaches most commonly used to sell a business are bilateral negotiations with a single buyer and the confidential auction process. With the help of a competent M&A advisor, there are many benefits to running an auction process:

1. Market Canvassing

With a vast landscape of buyers (strategic, private equity firms, family offices, search funds, etc.) it is wise to canvass the buyer market to ensure no stone is left unturned. Like many business owners you may not have the time or experience to do this yourself. Enlisting an advisor with deep knowledge of the buyer universe ensures a complete list of potential acquirers.

2. Maximizing Value

The only way to ensure you are receiving maximum value for your business is to generate significant competition among potential buyers. That does not obligate you to accept the highest offer if that buyer does not fit all your criteria, but knowing there is competition often leads your preferred buyer to sharpen their pencil and provide their best valuation.

3. Maintaining Leverage and Control

When negotiating with one party, the buyer gains the advantage by controlling the process and timing. By reaching out to multiple parties, you maintain leverage in the process and can dictate next steps. Additionally, you will have greater control over information – what, when, and with whom it is shared.

4. Greater Certainty of Closing

Bilateral negotiations can quickly break down. Buyers that initially appear very interested may have a change of heart after completing their due diligence, leaving you frustrated and discouraged, having to start the process all over or table the sale altogether. This happens more often than you might think. By running an auction process, you give yourself options in the event your initial buyer does not work out.

Sellers can and do get lucky with bilateral negotiations resulting in a desirable transaction. However, with so much at stake, a confidential auction process is the soundest approach for business owners to maximize the value they have built in their companies, command a narrower timeframe for the sale process, and increase certainty of a successful outcome.

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by Steve Jacobs

After navigating challenges brought on by the pandemic in early 2020 and seeing the number of deals and deal value decline, middle-market M&A has rebounded faster than expected.

What happened in the latter part of 2020? Credit markets recovered with a vengeance, debt capital availability returned, and interest rates remained historically low. Corporate buyers continued to strengthen their business strategies with acquisitions. Few quality companies came to market, increasing demand as well as valuation multiples. Strategic buyers dominated M&A activity while private equity firms focused on strengthening their current platform holdings.

2021 continues to look promising with vaccine rollouts, recovered credit markets, a more stable political environment, large amounts of dry powder, and deal opportunities fast-tracked by impending tax law changes. Though job losses since February 2020 hit 7.6 million, it is hoped the current \$1.9 trillion stimulus package will generate enough

growth to reach full employment. The unemployment rate is dropping from its 16% high in April 2020, though at 5.8% (May 2021) it is still above pre-pandemic rates.

Strategic and financial buyers continue to be active. You can expect deeper due diligence and continued use of representation and warranty insurance. Proposed changes to the capital gains tax are accelerating the desire to close M&A transactions quickly, so we are preparing to be busy.

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Establishing Your Acquisition Criteria

For many companies, acquisitions are a popular complement to organic growth – but not if they fail. We have all heard stories about failed acquisitions, many times as a result of poor preparation by the buyer. As a buyer it is imperative you go into an acquisition process with the necessary resources and a clear picture of the characteristics of an ideal acquisition target. When prepared, a proactive buy-side acquisition process allows you to target high-quality prospects that may not be actively looking to sell, providing you with greater leverage to control deal terms and price.

There are a multitude of criteria, both quantitative and qualitative, that should be evaluated and prioritized ahead of any acquisition process. Although not an exhaustive list, the following represent some of the most common considerations:

- **Size & Profitability** – The size of company you can purchase is one of the most important considerations. Integrating larger organizations may take more time and money than expected but offer benefits that come with greater scale. More profitable companies typically cost more but may also offer more limited upside relative to the purchase price. You should evaluate the amount of leverage you are capable of and comfortable with taking on. This will help determine the size of transaction that is feasible.

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Kyle Larson Named V.P. & Shareholder

BCC Advisers is pleased to announce Kyle J. Larson has been named Vice President and became a shareholder of the firm.



Kyle J. Larson, CFA

As an adviser and consultant, Kyle helps business owners and their management teams identify and accomplish ownership transfer and business acquisition goals. He works with clients in a range of industries, personalizing the M&A process for each transaction. Working on both sell-side and buy-side transactions, Kyle also collaborates with international colleagues on global assignments.

Kyle joined BCC in 2014, bringing experience as a former senior equity analyst and portfolio manager to the investment banking team. He earned the Chartered Financial Analyst (CFA) designation from the CFA Institute, is a graduate of Iowa State University with a B.S. in Accounting and Finance, and is a graduate of the West Des Moines Leadership Academy. Kyle and the firm are members of the Alliance of International Corporate Advisors (AICA), which provides global reach for our clients seeking cross-border transactions.

Exploding Across the Country



Valuing family ownership, a commitment to employees, and the additional resources necessary to expedite growth, the owners of Elite Blasting Services, LLC (EBS) were pleased to team up with long-time BCC client, Quick Supply Co. (Quick Supply), selling the operating assets but continuing to manage the operations.

Based in Stony Point, NC, EBS's reputation as a quality provider of blasting services and explosives distribution to the mining, quarry and construction markets extends across its targeted geography in the southeast, including North Carolina, Georgia, Tennessee, South Carolina, Alabama, and Virginia. The footprint ideally fit Quick Supply's own coverage which already included 21 locations across the U.S. and strengthens Quick Supply's title of being the largest independent distributor of explosives products and services in the U.S.

BCC represented Quick Supply on this opportunity, assisting with valuation, structure, negotiations, and effecting a timely closing. "Having worked with BCC Advisers over the last 15 years, we know we can count on them to help us with our growth objectives,"

stated Quick Supply Vice President, Mike Hale. "This will be the sixth closed transaction on which we have engaged BCC, and we are already looking forward to the next one."

For more than eight decades, Hale Holdings, owner of Quick Supply and other companies, has been a resilient organization of growth. The mission of this family-owned business founded in 1938 is to operate with safety at the forefront and ensure optimal blasting outcomes, partnering with customers to provide solutions and safeguard sustainable returns. BCC is pleased to help this valued client successfully continue to grow and expand its mission and influence.



Establishing Your Acquisition Criteria



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- **Products/Services** – Is there a particular product line or service offering you are looking to add to expand on your current offerings, or do you want to stick to your knitting and acquire a company with the same products and services?
- **Geography** – The target’s location is something to consider from both a management and physical location perspective. A distribution company may place an emphasis on location to expand in adjacent geographies, while a technology company with a mostly remote workforce may not care about location. If a targeted business is a significant distance from your headquarters, it is important to evaluate the difficulty and resources required to manage it.
- **Business Model/Customer Type** – Companies within the same industry can have different approaches to reaching customers, or even types of customers they target. If you sell a premium product, does it make sense to acquire a company that targets cost-conscious consumers? Should a business selling into the wholesale market enter the retail arena? Alternatively, if your business is solely brick and mortar you may look to acquire a company with a strong e-commerce platform to expand your distribution.
- **Customer Concentration** – At what level of customer concentration do you become uncomfortable? The benefits of strong relationships with a handful of large customers, some of which you may not sell to currently, need to be weighed against the risks of potentially losing any or all those customers post-closing.
- **Management Team** – What level of experience is required of the target company? If the owner provides a limited transition, do you have the bandwidth among your current management team to run the new operation, or will you rely on the current management of the acquired entity? If relying on the existing management of the acquired entity, do they have the skillsets required to successfully grow the business?

Each of these characteristics will have more or less importance depending on your business or industry. It is important to thoroughly review with your advisory team what is most important before approaching potential targets.

on the dotted line

Some Recent BCC Advisers Transactions:

Advised a regional explosives distribution and blasting services provider on an acquisition providing expanded geographic reach.



Advised a national provider of print and multichannel marketing solutions on the acquisition of a virtual marketing agency and small business development company.



Performed a fair market valuation of a construction materials supplier for gift tax purposes.



Prepared a fairness opinion regarding the purchase of shares of a bank by an ESOP.



Performed a fair market valuation of an engineering company for purposes of annual ESOP plan administration.



Advised an insurance agency on fair market valuation for a proposed transaction.

The Market Front

Some opportunities available through BCC Advisers:

U.S.-based infrastructure construction company - is seeking a buyer.

U.S.-based IT services company- is seeking to grow through acquisitions.

European-based manufacturer of plastic molded components for automotive exteriors - is seeking a buyer.

U.S.-based B2B media company - is seeking acquisitions of the same.

WE'D LIKE TO HEAR FROM YOU!

Is there a topic related to mergers and acquisitions you'd like to learn more about? Send your request to us at info@bccadvisers.com and we will do our best to address your question in a future issue!